

## **Department of Economic Security/Division of Developmental Disabilities (DES/DDD) Updated Actuarial Memorandum**

### **I. Purpose:**

This memorandum presents a discussion of the revision to the capitation rates for the Developmentally Disabled (DD) population of the Arizona Long Term Care System (ALTCS) program, effective from July 1, 2008 to June 30, 2009. Arizona Health Care Cost Containment System (AHCCCS) has computed a capitation rate change due to changes in the program stemming from State legislation including the impact of hospital inpatient and outpatient rate freeze, smoking cessation, and Home and Community Based Services (HCBS) rate freeze. This rate decrease is effective for the period July 1, 2008 through June 30, 2009.

The purpose of this actuarial memorandum is to demonstrate that the updated capitation rates were developed in compliance with 42 CFR 438.6(c). It is not intended for any other purpose.

### **II. Overview of Changes**

State legislation, signed into law in 2008, mandates that "For rates effective October 1, 2008, through September 30, 2009, the Arizona Health Care Cost Containment System Administration shall not increase the inpatient hospital tier per diem rates, inpatient hospital outlier thresholds or aggregate outpatient hospital fee schedule rates above the rates in effect on September 30, 2008...". This produces a savings of approximately \$450,000.

Starting October 1, 2008, in accordance with Laws 2008, Chapter 131, AHCCCS is adding coverage for eligible tobacco cessation products which include nicotine replacement therapy (NRT) and tobacco use medications for eligible Title XIX AHCCCS members who wish to stop tobacco use and who are enrolled in a tobacco cessation program offered by the Arizona Department of Health Services. The cost to provide this service is estimated to be approximately \$45,000.

Law 2008, Chapter 285, Section 6 mandates that "For fiscal year 2008-2009, the department of economic security shall not increase reimbursement rates for community service providers and independent service agreement providers contracting with the division of developmental disabilities." This law was not known when the DDD rates were set and they were set with an assumed increase for reimbursement rates for HCBS services. AHCCCS has removed the amount built in for the increase in reimbursement rates. This produced a savings of approximately \$9.5 million.

AHCCCS has determined that the combined rate impact of the above changes requires a change to the CYE09 DDD rates. The behavioral health rates remain unchanged.

### III. Proposed Capitation Rate Components

#### *HCBS Component*

As stated above, the HCBS rate freeze impacts the HCBS component of the DDD rates. The savings from this reduces the HCBS component by \$38.55 PMPM.

#### *Acute Component*

As stated above, the inpatient and outpatient rate freeze and the smoking cessation affects the acute component of the DDD rates. The savings from the inpatient and outpatient rate freeze reduces the acute component of the capitation rates by \$1.81 PMPM. The smoking cessation increase to the acute component is \$0.18 PMPM. The next savings for the acute component is \$1.63 PMPM.

#### *Risk/Contingencies and Premium Tax Component*

The changes in the above components also impact the risk/contingencies and premium tax line items. The change to risk/contingencies represents a 1.19 percent decrease for DDD PMPMs, and the change to premium tax represents a 1.14 percent decrease for DDD PMPMs.

The projected updated PMPMs for the above components, as well as the percentage change and dollar differences, can be found in Table I.

**Table I: DDD Rate Impact**

Component	CYE09 Current Rate	CYE09 Proposed Rate	Percentage Difference	Dollar Difference *
HCBS	\$ 2,573.53	\$ 2,534.98	-1.50%	\$ (9,553,638)
Acute	\$ 375.09	\$ 373.46	-0.43%	\$ (403,954)
Risk/Contingency	\$ 51.40	\$ 50.79	-1.19%	\$ (151,173)
Premium Tax	\$ 72.94	\$ 72.11	-1.14%	\$ (205,694)

\* Based on Projected MMs from 07/01/08 - 06/30/09

### IV. Proposed Capitation Rates and Their Impact

The proposed capitation rates equal the sum of the CYE09 approved capitation rates plus the impact of the above changes to the rate components. Table II shows the current CYE09 and proposed updated CYE09 capitation rates and the budget impact from July 1, 2008 to June 30, 2009.

**Table II: Proposed Updated Capitation Rates and Their Impact**

Rate Cell	Based on Projected Member Months			Based on Projected Member Months	
	July 1, 2008 - June 30, 2009	CYE09 Current Rate	CYE09 Updated Rate	Estimated CYE09 Current Capitation	Estimated CYE09 Updated Capitation
DDD	247,825	\$ 3,544.25	\$ 3,502.63	\$ 878,353,001	\$ 868,037,884
Behavioral Health	247,825	\$ 102.88	\$ 102.88	\$ 25,496,195	\$ 25,496,195
Targeted Case Management	54,000	\$ 124.04	\$ 124.04	\$ 6,698,160	\$ 6,698,160
Total				\$ 910,547,356	\$ 900,232,239
Total impact on CY estimated updated capitation					\$ (10,315,117)
Percentage impact on CY estimated updated capitation					-1.13%

DD rate reflect full premium tax

BH does not reflect premium tax

**V. Actuarial Certification of the Capitation Rates:**

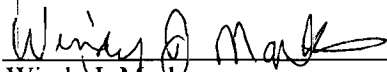
I, Windy J. Marks, am an employee of Arizona Health Care Cost Containment System (AHCCCS). I am a Member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. I meet the qualification standards established by the American Academy of Actuaries and have followed the practice standards established from time-to-time by the Actuarial Standards Board.

The rates were developed using generally accepted actuarial principles and practices and are considered to be actuarially sound. The rates were developed to demonstrate compliance with the CMS requirements under 42 CFR 438.6(c) and are in accordance with applicable laws and regulations. The rates are appropriate for the Medicaid populations covered and Medicaid services to be furnished under the contract. The rates may not be appropriate for any other purpose. The documentation has been included with this certification. The actuarially sound capitation rates that are associated with this certification are effective for the twelve-month period beginning July 1, 2008.

The actuarially sound capitation rates are a projection of future events. It may be expected that actual experience will vary from the values in the rates.

In developing the actuarially sound capitation rates, I have relied upon data and information provided by DES/DDD and the AHCCCS internal databases. I have accepted the data without audit and have relied upon the DES/DDD auditors and other AHCCCS employees for the accuracy of the data.

This actuarial certification has been based on the actuarial methods, considerations, and analyses promulgated from time to time through the Actuarial Standards of Practice by the Actuarial Standards Board.

  
Windy J. Marks

10-06-08  
Date

Fellow of the Society of Actuaries  
Member, American Academy of Actuaries